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SIPDIS

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SUBJECT: ECONOMIC REPORT - SEPT 11 THROUGH SEPT 17

1. Sensitive but unclassified. Protect accordingly.

2. (U) Summary. Prices decreased slightly, bringing monthly inflation to -1.1 percent. Exchange rates rose to rates above FC 400 to the USD. Diamond exports decreased from 2.79 million carats in July to 1.92 million carats in August. Angola has resumed the forced repatriation of illegal Congolese diamond miners. The central bank announced its plans to issue new larger denomination bank notes in 2005. Chanimetel, a metalworking firm based in Kinshasa, agreed to negotiate a labor dispute with union representatives. DGI (tax authority) announced revenues of USD 110 million for the first seven months of 2004. Belgium granted 20 million euros in aid to the DRC. A measles outbreak due to low vaccination rates was reported in Equateur province. End Summary.

MONETARY AND PRICE UPDATE

3. (U) Both food and non-food prices decreased slightly, partially due to the decrease in demand for school-related supplies now that classes have begun. Overall, prices decreased 1 percent, bringing monthly inflation to -1.1 percent.

4. (U) The exchange rate has depreciated slightly over the past month. A combination of low diamond prices in Antwerp and high international oil prices has increased hard currency demands in the DRC. The IMF reported that delayed effects of speculation on political stability (post-Gatumba massacre) and seasonal demand for USD to pay school fees also contributed to the fluctuation. However, the IMF noted that the fluctuations are minor considering that exchange rates were at FC 420 to the USD less than a year ago and was slightly overvalued at FC 380 to the USD. The IMF expects rates to stabilize shortly.

TRANSPORTATION

PUBLIC TRANSPORTATION COSTS RISE IN MBUJI-MAYI

5. (U) Local press reported that the cost of public transportation rose sharply in Mbuji-Mayi, from FC 100 to FC 150. Rising fuel costs due to market pressures and tax increases contributed to the increase in fare prices.

MINING

DIAMOND EXPORTS DECREASE IN AUGUST

6. (U) The Ministry of Mines recorded diamond exports of 1.92 million carats for a value of USD 64 million for the month of August, 2004. This is a significant decrease from July's exports of 2.79 million carats. (Comment: This is an indication that the DRC diamond dealers are holding their supply off the market until prices recover in Antwerp. Prices have decreased 10 percent over the past few months. End Comment.)

MORE EXPULSIONS FROM ANGOLA

7. (U) Local press reports that the expulsion and forced repatriation of Congolese miners from Angolan diamond mining sites has resumed, with approximately 600 Congolese being repatriated each week. (Note: Angola had previously halted the politically sensitive expulsion of Congolese miners after ministerial-level dialogue between the two countries. End Note.)

BANKING

BCC ANNOUNCES NEW BANK NOTES FOR 2005

8. (SBU) The BCC (central bank) announced plans to issue new bank notes in denominations of FC 1,000 (approximately USD 2.50), FC 5,000 (approximately USD 12.50), FC 10,000 (approximately USD 25), FC 20,000 (approximately USD 50), and FC 50,000 (approximately USD 125) beginning in 2005. (Comment: This could also play a role in speculative activities. The IMF is not in favor of releasing notes in the 10,000s range, as it feels the market is not yet prepared to handle such large denominations. End Comment.)

LABOR

CHANIMETAL AGREES TO UNION NEGOTIATIONS

19. (SBU) Local press reported that Chanimetal, a metalworking firm based in Kinshasa (note: Chanimetal is also the local representative of Motorola in the DRC), agreed to meet with union representatives to negotiate a labor dispute that has frozen the company's operations since September 8, 2004. Workers allege that Chanimetal has not fully paid salaries and bonuses as prescribed by an inter-professional minimum salary agreement (SMIG). (Comment: Chanimetal executives alleged that press accounts were misleading, and that the dispute arose from an illegal wildcat strike. Chanimetal executives agreed to meet with union heads, but had already threatened to terminate workers' contracts if the strike continued. End Comment.)
PUBLIC SECTOR
DGI REVENUES TOP USD 110 MILLION FOR 2004

110. (U) DGI (tax authority) reported revenues of over USD 110 million for the first seven months of 2004. This is compared to total revenues for 2003 of USD 124 million. DGI representatives credited strict application of IMF and GDRC structural reform initiatives as contributing to the revenue increase.

GDRC ADOPTS PROPOSALS FOR PUBLIC SECTOR REFORM

11. (U) International press reported that the cabinet of the GDRC has adopted Ministry of Public Affairs proposals for reform of the DRC's public sector. The proposal calls for the reform of state procurement practices, establishment of a direct deposit payroll system for managers, payment of some salary arrears for state workers, and the creation of an inter-ministerial committee to monitor public administration.

AID

BELGIUM FUNDS 20 MILLION EUROS OF ASSISTANCE PROJECTS

112. (U) Belgian Minister of Cooperation and Development Armand de Decker announced that Belgium has granted the DRC 20 million euros in aid to improve education, health, and food security in the DRC. In addition, 8 million euros of the aid will be used to rehabilitate rural roads linking important agricultural areas in Bas-Congo province.

2 MILLION EUROS IN AID FROM FRANCE

113. (U) OFIDA (customs and tax agency) Deputy Director Albert Kasongo Mukonzo reported that the French government has donated 2 million euros in aid for the construction of two food warehouses and the rehabilitation of part of the Kasumbalesa road in Katanga province.

HEALTH

4000 CASES OF MEASLES REPORTED IN EQUATEUR

114. (U) Local health authorities and WHO representatives in Equateur province reported a sharp increase in cases of measles in children aged 6 months to 15 years. Approximately 4000 cases have been registered since January 2004. WHO representatives blame the outbreak on poor vaccine distribution, and plan to begin combining measles vaccinations with polio and tetanus vaccinations to increase coverage of the youth population.

115. (U) INFLATION BY CATEGORY (IN PERCENT)

| WEEK ENDING | 8/20 | 8/27 | 9/03 | 9/10 |
|-------------------|------|------|------|------|
| FOOD | 0 | 7 | 0 | -3 |
| BEVERAGE | 0 | 0 | 0 | 0 |
| NON-FOOD | -1 | 0 | -1 | -2 |
| CLOTHING | 0 | 0 | 0 | 0 |
| RENT | 0 | 0 | 0 | 0 |
| TRANSPORT | 0 | 0 | 0 | 0 |
| SCHOOL COSTS | 0 | 0 | 0 | 0 |
| UTILITIES | 0 | 0 | 0 | 0 |
| COMBINED FIGURES | | | | |
| WEEKLY INFLATION | 0.0 | 2.6 | 0 | -1 |
| MONTHLY INFLATION | -0.8 | 1.7 | 0 | -1.1 |

116. (U) EXCHANGE RATE DEVELOPMENTS

| | 8/20 | 8/27 | 9/03 | 9/10 |
|-------------------|---------|---------|---------|---------|
| CENTRAL BANK RATE | 390.594 | 392.045 | 396.014 | 401.688 |
| PARALLEL MARKET | | | | |
| -KINSHASA | 385-390 | 390-395 | 390-395 | 400-405 |
| -LUBUMBASHI | 380-390 | 380-390 | 380-385 | 400-405 |

| | | | | |
|-------------|---------|---------|---------|---------|
| -MBUJI MAYI | 385-390 | 385-395 | 385-390 | 400-405 |
| -KISANGANI | 380-390 | 380-390 | 380-390 | 400-410 |
| -GOMA | 400-410 | 400-410 | 400-410 | 410-415 |
| -BUKAVU | 400-410 | 400-410 | 400-410 | 410-415 |

MEECE